THE END OF THE TAXIMETER? OR THE END OF THE TAXI?[1]

Richard Darbéra
CNRS, Latts
Scientific director of IVM's Taxi Project[2]

Smartphone apps will render obsolete the economic justifications for setting taxis quotas and for regulating taxi fares since the borderline between street hail (a taxicab monopoly) and telephone booking will be blurred.

TWO QUESTIONS AND A DREAM (OR NIGHTMARE?)

People who request a taxi want to go from A to B.

Why do taxis have a mandatory rooftop light? Because when the light is on, people can see from the sidewalk that the taxi is available, so they can hail it.

Why do taxis have a mandatory taximeter? Since the client who boards the taxi cannot know in advance how much the ride will cost him, the taximeter is here to guaranty the fare will be fair.

Introducing price competition in the metered taxi supply is tricky. This has been tried in the times of the horse cabs in Paris with three colours flags. It did not work out too well and was abandoned. Even now, with up-to-date technology, is does not work so well in Stockholm or in Oslo.

Some time in the future, I am standing on a sidewalk somewhere in Apple City or in Google Town. I take my iPhone and tell Siri I want a taxi to the airport or to the closest Starbucks. Siri selects half a dozen vehicles and shows me, for each one of them, the price of the ride, the type of vehicle and how long I will have to wait for it to pick me up. I can choose the cheapest, or the largest (van), or the fastest (motorbike) or the cleanest (electric car). I can also choose according to the rating of the driver.

Then I can see the vehicle coming to me on a map, and when it is close enough, the screen of my iPhone exhibit a distinct code I can show to the vehicles approaching so the driver knows I am the person who requested the ride.

No rooftop light, no taximeter, and probably no money since the app operator will debit my credit card account and pay the taxi directly. While sipping my coffee at Starbucks or waiting in line at the airport counter, I can use my iPhone and give a grade to the ride I just had.

After dropping me at Starbucks, the taxi driver tells its on-board terminal that he is available for a new assignment. According to the spot market situation (supply, demand, congestion) provided in real time by his terminal, he can choose the rate at which he will auction his next service.

NO ROOFTOP LIGHT, NO TAXIMETER. NO REGULATION?

Is the system described above safe? Is it stable?

To answer these questions it is necessary to answer first another question: is the taxi app business a natural monopoly?

It probably is, just as the radio-taxi dispatch is. When seeking a taxi, customers dial the call centre with the largest radio-taxi fleet. Conversely, drivers seek affiliation with the call centre that gets most calls. What works with the call centres of today will probably work as well with the taxi apps of the future for the same reason. Entering the taxi app

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[2] Institut pour la Ville en Mouvement (Cities on the move) Research Project, Paris

business requires an investment in software (~ 30 man-months) and in advertising. In a mature market, attracting both customers and drivers requires a strong competitive advantage in terms of price and quality and time to make potential customers aware of it, i.e. it entails loosing money for several years, just like Amazon did.

Thus the first task for the regulator is to ensure that no app operators can reach a monopoly position, at least at the local level.

What about the driver's business?

Although the apps operators will not like it, it seems reasonable for drivers to get affiliated to two or more apps. It is however easy for the app operator to spot the driver that switches off too often before getting a new assignment. App operators will probably forbid it. App operators will also ban from their fleet the drivers who consistently get bad ratings from the customers for inappropriate or dangerous behaviour. Being rejected by all the app operators of the city might take time. Not to mention the fact that drivers may change location from one city to the other.

Since app operators are not able to prevent that, the second task of the regulator would be to control both drivers and vehicles, just like Transport for London started regulating the minicab business back in 1998. Another reason for regulating drivers' access to the profession is that apps operators may have little incentive (or legal capacity) to check on the drivers' criminal record and physical fitness.

Controlling drivers and vehicles has a cost. It is thus reasonable for the regulator to charge a fee. Another reason to charge a fee is that entry in the driver's business is cheap. It is thus probable that what happened in the four largest cities of the Netherlands right after deregulation would happen here also: massive entry and exit from the business.

Will there be too many cars, double-parked, and waiting for calls? In a city with congestion pricing and efficient parking pricing, this should not be a problem. The regulators might find useful however to create special parking facilities like taxi ranks in places with high demand, where customers resistant to smartphones could get rides the traditional way.

Taxi ranks and airports (and other places where massive demand meets massive supply) raise a specific question: how to set the prices of the rides that cannot be auctioned on the app network because of limited physical space for customers and vehicles to meet? The answer probably is the solution that was invented back in the 17th century when the first coaches gathered around May Pole in London in or around the Hotel Saint Fiacre in Paris, and which is still in use in many airports around the world: a fixed price from zone to zone. This price can be advertised on a billboard at the taxi rank. It is the role of the owner of the premises (e.g. the airport authority) to only allow on the ranks the vehicles that accept the system and meet specific quality criteria.

A ROLE FOR THE CONSUMERS ASSOCIATIONS

App operators might turn a blind eye to whether the driver is really operating a registered car or not. Unless it has real time knowledge of the position of all the vehicles on duty, as the Taxi and Limousine Commissions presently has in New York City, it is difficult (or quite costly) for the regulator to check a good compliance to the vehicle requirements. Here customers can play a role by reporting vehicles or drivers who do not exhibit the required documents in the vehicle.

Many other questions remain about the practicability of the system, e.g. what about the non-registered customers like the tourists or what about price competition at taxi ranks, but the most interesting question, at least in the short run, is how such a system could ever come about given the strategies of the various actors involved: established radio-taxi dispatch operators, taxi companies, taxi drivers, taxi app start-ups, Google-like outsiders, etc. But that's another story, as Kipling said.